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Supreme Court, U.S.
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No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC., *et al.*,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product, and whether the presumption is rebuttable or absolute.

STATEMENT PURSUANT TO RULE 29.6

Respondent, Independent Ink, Inc., has no parent corporation and no publicly held company owns 10% or more of its stock.

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INTRODUCTION

What the Defendants are essentially asking this Court to do is to undertake the rewriting of Section 1 of the Sherman Act as it relates to the doctrine of patent tying. This Court has interpreted that statute as it relates to the prohibition on patent tying, consistently, in case after case since 1946 when it first enunciated the doctrine in *International Salt Co. v. United States*, 332 U.S. 392 (U.S., 1947) and reaffirmed it in *United States v. Loew's Inc.*, 371 U.S. 38 (1962). In fact, this Court had the opportunity to expressly review this doctrine in the case of *Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336 (9th Cir., 1984), *cert. denied*, 473 U.S. 908 (1985) but denied cert at that time.[1]

It is fundamental that, particularly, in issues relating to statutory construction, this Court is to follow *stare decisis*

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1. Defendants have attempted to rely upon statements from the dissent in the denial of the petition for cert in that case. Overlooking, for the moment, the inappropriateness of relying on a dissenting opinion in a denial of cert for any purpose the fact of the matter is that the dissenters, in that opinion were addressing a completely different issue. Anyone skilled in the art of software copyrights, understands, that unlike in a patent situation, a copyright may not rely upon functionality. Where software copyrights are concerned, it is well known, to one skilled in the art, that numerous programs may be written which provide the identical functionality. All that is necessary is a basic understanding of Boolian algebra. Accordingly, it may be that in the area of software copyrights the presumption of market power, stemming from unique functionality, may be something which the Court may wish to review at some future time. Regardless, that is the issue with which the dissent was dealing in that opinion. Nowhere in that dissent was there any indication that those justices had any interest, whatsoever, in revisiting the doctrine of tying as it relates to patents, which do, in fact, involve unique functionality.

and adhere to its precedents. *Patterson v. McLean Credit Union*, 491 U.S. 164, 172-3 (U.S., 1989), *Square D Co. v. Niagara Frontier Tariff Bureau*, 476 U.S. 409, 424 (U.S., 1986), *Illinois Brick Co. v. Illinois*, 431 U.S. 720, 736 (U.S., 1977).

In this case, a reversal of the patent tying doctrine would not only be presumptively wrong i.e., it violates the principle that Congress is presumed to have agreed with the Court's decision if it has not changed the law to overturn or modify the Court's decision, but would, in actual fact, be wrong. That is because this doctrine has been subjected to numerous attempts in the Congress to reverse this Court's decisions on patent and copyright tying.

In 1989, the House refused to pass the "Intellectual Property Antitrust Protection Act of 1989". In 1995, it refused to pass the "Intellectual Property Antitrust Protection Act of 1995". Congress rejected two similar proposals in the 99th Congress and four by the 100th Congress. In 2001, the opponents of the doctrine tried again. The subcommittee on Courts, the Internet, and Intellectual Property of the House Judiciary Committee held hearings on whether to repeal the doctrine. That effort also went nowhere. In opposing changing the doctrine, Representative Rick Boucher of Virginia stated:

> Mr. Boucher. Let me simply conclude my time here by saying something. I really don't perceive a need to adopt this legislation, and let me just put that belief on the record here. I am concerned that if we pass this in the absence of a clear need to do it, it is a change to the Nation's antitrust laws.

> We make those changes very sparingly and for good reason. Because, when we make a change, it is going to be interpreted by the courts to mean something. And if the Supreme Court, which already says there is no presumption in the absence of a showing of lack of substitutable product, sees that we have gone ahead and made this change anyway, I am concerned about how our action is going to be interpreted and whether, for example, it is going to make it more difficult to establish market power in appropriate cases where it really does exist; and that will now become a burden on the plaintiff in those instances.
>
> I am concerned about what effect this change might have on collateral well-settled antitrust policies, such as, for example, the abuse of intellectual property concept; and I would just hesitate to see us act in the absence of a clear showing that it is necessary.

(App., 1a – 2a)

The 1995 attempt to repeal the doctrine was a frontal assault on this Court's decisions as well as on the 9th Circuit's decision in *Digidyne*. In introducing the legislation, Representative Henry Hyde, the committee chairman, stated:

> The basic problem stems from Supreme Court and lower Federal court decisions that construe patents and copyrights as automatically giving the intellectual property owner market power. *Jefferson Parish Hospital District No. 2 v. Hyde,*

466 U.S. 2, 16 (1984); *United States v. Loew's, Inc.*, 371 U.S. 38, 45 (1962); *Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336, 1341-42 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1984).

(App. 3a)

An attempt was made in 1988 to back door the repeal of the doctrine during the pendency of the Patent Misuse Reform Act. In *Grid Systems v. Texas Instruments, Inc.* 771 F. Supp. 1033, 1037 (N.D. Cal. 1991) the Court noted:

> The primary thrust of the first part of Senate Bill 438 [which later became section 271] went beyond patent infringement actions and would have applied generally to all tie-in antitrust violations where the tying product was a patent or copyright....Certain conclusions can be reached concerning Congress' rejection of Senate Bill 438. First, the per se rule for Sherman Act tie-in cases (as enunciated in Loew's and Jefferson Parish) remains intact, and the presumption of economic power, when the tying product is a patent or copyright, survives.

Thus, on numerous occasions, Congress has expressly rejected attempts to change the statute to overturn this Court's long standing line of decisions going back to 1946, and expressly reaffirmed in *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984). Among the many cases which have reaffirmed this decision, in addition to *International Salt Company v. United States; United States v. Loew's, Inc.*, and *Jefferson Parish Hospital District No. 2 v. Hyde, supra* are *White Motor Co. v. United States*, 372 U.S. 253 (1963);

United States Steel Corp. v. Fortner Enterprises, 429 U.S. 610 (1977); *Standard Oil Co. of Cal. v. United States*, 337 U.S. 293 (1949); and *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992).

Basically, Defendants' position is that this Court should reverse the long standing line of decisions by this Court, ignoring *stare decisis* completely, and ignoring the clear intent of Congress to maintain this doctrine, because, if this Court were considering the issue for the first time, the Court would reach a different result. If the Court were to accept the case for that reason, the Court would basically be eliminating the doctrine of *stare decisis*, as well as overturning the long line of cases which hold that precedent should be followed in a situation involving statutory construction.

This Court has made it clear, time after time, that it does not review decisions simply because it may or may not agree with the determinations made by a previous Court. That is what *stare decisis* is all about, and there is no reason in the world why this Court should review and overturn the patent tying doctrine when this Court was unwilling to take up the issue in *Digidyne, supra* and when Congress has steadfastly refused to change it.

REASONS FOR DENYING THE PETITION

I. DEFENDANTS' ECONOMIC ANALYSIS AS IT RELATES TO THE ROLE OF PATENTS IN THE MARKETPLACE IS FUNDAMENTALLY INCORRECT.

In a concurring opinion in *Jefferson Parish*, Justice O'Connor made the statement that:

> ("[a] common misconception has been that a patent or copyright * * * suffices to demonstrate market power"; while this factor might "help to give market power to a seller, it is also possible that a seller [in this situation] will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product")

That statement, which is nothing more than dicta in a concurring opinion, has been seized upon by the ideological opponents of the doctrine, for the proposition that patents provide no market power, whatsoever, and should be completely disregarded in any economic analysis.[2] That is not an issue which this Court should be considering at this time. That is clearly the appropriate province of the Congress.

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2. A careful reading of the statement shows that Justice O'Connor was focusing on a situation where "for example, a patent holder has no market power in any relevant sense **if there are close substitutes** for the patented product" (Emphasis added.) This is in no way inconsistent with the Federal Circuit's holding in this case where the Defendants have the opportunity to prove that there are close substitutes which obviate the market power of the patented products.

Congress has chosen not to change the presumption of market power in the patent. This Court should not do so either.

Even if this matter were being considered as a case of first impression, the arguments by those who state that a patent has no economic power have a complete misunderstanding of the role of patents in an economic model. Professor Areeda, on whom Defendants rely, himself has stated, in his treatise on anti-trust tying, that the starting point of any tying analysis is with an economic model.

There are three fundamental flaws in the reasoning of those who believe that a patent provides no market power. The first flaw is to ignore the fact that the starting point for all antitrust cases, and in particularly in tying cases is the economic model (Areeda). The fundamental principal of an economic model is that companies make rational decisions and they do not make investments unless there is a return on investment. Any investment without a return would be irrational. An economic model presumes rational decisions.

Where a patent is concerned, the investments are substantial. They include research and development costs; costs of manufacturing the patented product; and the costs of obtaining a patent as well as a public disclosure of the best mode for practicing the invention. The only value obtained from that investment is the monopoly power conferred by a patent. If that monopoly power confers no economic value, i.e., non patented products are equally substitutable for the patented product, then there has been a complete waste of the resources (i.e., dollars) invested in research, patenting, manufacturing, and marketing of patented products. Accordingly, it is **fair to presume** (as was stated by the Court in *Jefferson Parish*) that a patent confers

market power in the patented product. Failure to make that presumption is the failure to presume a rational economic model with decisions made on a rational economic basis.

Another mistake made by those that believe that a patent confers no economic or market power, is the assumption that the analysis of patent market power should extend to the entire world of patents. For example, in their brief Defendants set forth the statistics concerning the numbers of patents that are licensed and which obtain royalties. Those patents are completely irrelevant to the issues involved in the doctrine of patent tying. The doctrine of patent tying applies to patents which cover products actually sold by the Defendants and which manufactured products are tied to the sale of non-patented products. Patents which may or may not be licensed to others but which do not cover products marketed by Defendants, and tied to the sale of nonpatented products, are not considered as part of the patent tying doctrine.

Another mistake made by those who discount patents as having any economic value in a market, is the failure to understand the economic impact of a tying agreement. Tying agreements are a market disadvantage to any company which attempts to require a consumer of a tying product to purchase all of its tied product needs from the same source. These tying agreements deprive consumers of the opportunity to bargain for lower priced, non-patented, products. A rational economic model (the appropriate starting place for all economic presumptions) would presume that if there are two equally desirable products, one of which has a tying restriction and one of which does not have a tying restriction, the rational consumer will purchase the product without the tying restriction. Accordingly, there must be some market advantage of the tying product over its competitors, to

overcome the disadvantage, to the consumer, of being required to buy all of its tied products from one source. If the tying product is patented, then the only rational conclusion is that the additional market power, which would cause a consumer to make a rationally disadvantageous decision, in accepting a tying restriction, is the market power obtained as a result of the unique features of the patented product. That has to be the market advantage, because that is the only advantage bestowed on a product by virtue of a patent. In order to obtain a patent, a product must be novel, unique, and **useful**. A rational economic model places value on the unique **useful** features of the patented product, whereby a consumer would be willing to purchase a patented product, with the onerous restrictions of a tying contract, instead of purchasing a non-infringing substitute product without the restriction. This was recognized by this Court in *Standard Oil Co. v. United States*, 337 U.S. 293, 306 (U.S., 1949):

> In the usual case only the prospect of reducing competition would persuade a seller to adopt such a contract and only his control of the supply of the tying device, whether conferred by patent monopoly or otherwise obtained, could induce a buyer to enter one. The existence of market control of the tying device, therefore, affords a strong foundation for the presumption that it has been or probably will be used to limit competition in the tied product also.

The novelty of a patented product is what makes the economic analysis, relating to patents, different from those involved in other market power tying cases. In straight market power tying cases, several manufacturers can make an

identical or equivalent product. That is completely different from the patent situation, where a patent precludes any competitor from making the identical or equivalent product. If several manufacturers can legally make an identical product or a product which is the functional equivalent of another's product (equivalence is also prohibited under the patent laws), then it is appropriate to do an analysis to determine why a company, which makes a non-unique product, has the ability to tie the sale of that non-unique product to the sale of other products.[3]

Because a normal product tying analysis does not involve the unique ability to make a unique product, one has to look to other factors to determine what could be the economic power and leverage which would allow a company to dictate an unfavorable tying condition of sale. Because there is no unique legal monopoly, as conferred by a patent or copyright, one looks to other factors, such as market size, market domination, monopolization of supply, size of one company versus its competitors, etc.

If several companies make a product which is either identical or virtually identical (including being the equivalent by performing essentially the same function in essentially the same manner to achieve essentially the same result), and only one of the various providers of those identical or equivalent products is able to force its consumers to agree to an otherwise undesirable tying agreement, that company has

3. In fact, one could argue that it would be fair to presume economic power in any product which successfully ties the sale of one product to another, and many scholars have advocated this "traditional school" analysis. This Court has not, however, interpreted the statute in that fashion, and because of *stare decisis* that line of decisions should not be disturbed without an act of Congress.

unfair power in the market place, and is guilty of a per se violation of the antitrust laws.

Because a patent prevents a competitor from either making an identical patented product, or from making an equivalent product (one which provides essentially the same function in essentially the same manner to achieve essentially the same result), a patent, in and of itself, provides the power to preclude direct head to head competition in the patented product, or its equivalents.

Under the decision of the Federal Circuit in this case, if the Defendants were mistaken in their rational analysis, that the investment in obtaining patents on their unique products conferred the market power for which they invested, then they still have the opportunity to show that their decision was somehow mistaken, and that they did not have the market power they believed.

This case is actually a text book example of why the doctrine exists and why it is appropriate. In this case, Defendants purchased the patent rights to a printhead which is an element that goes into piezoelectric printers. Those piezoelectric printheads where developed in response to a market need. Prior to the development of the technology in this case, the only technology available for providing barcodes for large shipping cartons was "stick and apply" labels. "Stick and apply" labels were highly undesirable in a number of applications, and therefore, the piezoelectric technology, covered by Defendants' patents, was developed to address the shortcomings of the "print and apply" label technology. Defendants, as part of their economic model, approached a number of manufacturers and entered into the agreements which are the subject matter of this lawsuit. Under

those agreements, entitled "patent license agreements", the OEMs could purchase their patented printheads only from the Defendants (because they were patented and unique, there were no other suppliers). As part of these patent licenses, the manufacturers and their customers (end users) could only have the patent licenses, provided they purchased all of their ink supplies from Defendants. The ink supplies were not patented and, but for these agreements, Defendants would have had no opportunity to restrict anybody from purchasing lower cost ink from others, such as Plaintiff. Defendants made a rational decision to invest in patents, because those patents gave them market power in a unique product area, which they then exploited to monopolize virtually the entire national revenue stream from the non-patented ink, to which they had no exclusive rights whatsoever. The printing machines themselves cost less than $10,000.00. A single printing machine can use hundreds of thousands of dollars of ink per year. Accordingly, Defendants used their patented technology to provide themselves with a monopoly over non patented technology, a course of conduct expressly prohibited by the antitrust laws. This is a classic case of the utilization of a patent monopoly to create a monopoly in a non-patented product. It is ironic that Defendants, who have engaged in a classic illegal scheme, should now be asking this Court to reverse the patent tying doctrine to give them free reign to engage in this course of conduct. The only reason they were able to engage in this unlawful scheme, successfully, was because of the unique market power created by the patents in the piezoelectric printheads. Without that economic power, they would never have been able to monopolize the ink market. The ink sold by the Plaintiff in this case is identical to the ink sold by Defendants and is marketed at a substantially lower price. But for Defendants' market power in their patents, coupled with their illegal tying agreements,

Defendants would have never been able to hold onto even a majority of this market much less the approximately 90% it has been able to obtain and sustain.

The bottom line is that even if the Court were reviewing this issue for the first time, common sense, and the basic fundamentals of economic modeling, coupled with the real world impact of patents on the actual sale of products covered by patents, (as opposed to licensing of non-manufactured products), all establish that there is a solid rational basis for concluding that patents do confer market power and that fact has been recognized by a majority of this Court, repeatedly. It is also a reality which has been honored by most American manufacturers and companies since 1946. The prohibition on patent tying is known as the third rail of patent law to virtually every patent practitioner in the country today. Major companies such as Hewlett Packard go to great pains to not provide contractual requirements that people buy their non-patented supplies as a prerequisite to purchasing and using Hewlett Packards patented products (although they would love to be able to do so). The doctrine is well known and well respected (contrary to the unsupported assertions of many law firms and pundits who have either an economic reason for disliking the doctrine or who have an ideological prejudice against it). Patents are a powerful economic tool and that is the reason, (as is pointed out in Defendants' brief) that the number of patent applications filed in the United States has increased geometrically over the years. The marked increase in patent filings and patent issuances as well as the explosion of patent infringement litigation, all give a lie to the assertion by Defendants that somehow repealing this doctrine is necessary to encourage companies to invest in inventions and patents. This doctrine has been effect since

1946, it is well known, it has been respected by businesses during all of those years and there is absolutely no reason whatsoever for that doctrine to be completely reversed. In fact, reversal could create vast uncertainties among business and could have a major adverse impact on consumers when they suddenly find themselves tied up and prohibited from, e.g. refilling Hewlett Packard ink cartridges.

The presumption of market power in patents is not only solid law, it is solid economics, and is a presumption which has conferred a substantial benefit on consumers throughout the years. Elimination of this doctrine would not only be illogical, it would be highly disruptive. If anyone is going to disrupt the business climate in this country, as it relates to the ability of a company to tie the sale of one product to another, because of its patents, that is a disruption which should be undertaken by Congress, and Congress has repeatedly declined to do so.

II. THE FACT THAT THE PRESENT LEADERSHIP OF THE JUSTICE DEPARTMENT CHOOSES NOT TO UTILIZE THE PRESUMPTION OF MARKET POWER IN A PATENT, IS NOT A BASIS FOR THE SUPREME COURT REVERSING ITSELF.

There is a certain irony in a deputy assistant attorney general representing that there should be no presumption of market power, originating from a patent, which covers a marketed product and which is used to tie the sale of that marketed product to the sale of unpatented products. The irony is that the doctrine was first created in *International Salt* and the Plaintiff in that case was the Justice Department. It is obvious that the ideology of the Justice Department has changed over the years. The fact that the Justice Department,

at this point in time, does not wish to avail itself of that particular tool, does not mean the Court's analysis was not correct. That argument was raised before the Federal Circuit and soundly rejected, on the basis that the policy of some governmental agency is not determinative of what the law is. It is also not determinative of what the law should be. Whether the Justice Department chooses to avail itself of the patent tying doctrine to protect consumers, is a policy decision and a policy decision which could just as easily be reversed by the next attorney general. Defendants do not cite any instance wherein this Court has thrown aside *stare decisis* because of the policy of a government agency.[4]

III. "THE GREAT WEIGHT OF SCHOLARLY OPINION" IS IRRELEVANT.

In the hearing before the Federal Circuit in this case, Defendants' attorney attempted to argue the opinions of the so-called "legal scholars" as they relate to this issue. The panel members sharply rebuked Defendants' attorney,

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4. Not all government officials have taken the side of the proponents of tying. For example, former Federal Trade Commission Chairman Pitofsky stated:

> because intellectual property is now a principal, if not the principal, barrier to new entry in high-tech markets, ... I am concerned that recent cases, and particularly the Federal Circuit's opinion in [*In re Independent Service Organizations Antitrust Litigation*], have upset th[e] traditional balance [between intellectual property and antitrust] in a way that has disturbing implications for the future of antitrust in high-technology industries."

68 Antitrust L.J. 913, 919 (2001).

stating that the opinion of the so-called "scholars" was irrelevant; that they were not judges; that they did not take an oath of office, and that, in fact, their opinions constituted "subversive literature". What irked the Court was the fact that these "scholars" have not been merely content to criticize the doctrine, they have gone further and blatantly misrepresented that the doctrine doesn't even exist. The fact of the matter is that many of those so-called "scholars" have their own ideological axes to grind. For example, it is well known that the late Professor Areeda, a member of the "Chicago School" was vehemently opposed to the entire concept of patent tying on ideological grounds, related to his particular view that all antitrust laws should be subject to strict economic scrutiny.

Defendants have taken a number of remarks out of context from a number of articles, law review journals, panel discussions, etc. as though the particular opinions expressed by those individuals should be of more significance to this Court then the multiple decisions by this Court and the Congress of the United States which has repeatedly and forcefully rejected any and all attempts by the so-called "scholars" and others who have not been hesitant about expressing their views about this particular doctrine. This doctrine has been debated for decades and at no time, have the opponents of this doctrine, in spite of their repeated and ongoing efforts, had any success, whatsoever, in convincing Congress to change this law. The fact that so many "scholars" have crashed their ships of opposition against the granite rocks of Congress should make it abundantly clear to this Court that Congress has no intention of changing this law. Congress is well aware of the chorus of "scholarly" opinions, which is primarily a product of the ideology of those "scholars" and has rejected their attempts to change the law

time after time after time. If this chorus of "scholars" had not been so loud, over the decades, then one might argue that Congress was unaware of the "problems" caused by this doctrine. The fact that the opponents of the patent tying presumption have been so loud, for so long, further highlights the fact that Congress has made a conscience decision to reject those efforts and to maintain the Supreme Court's interpretation of Section 1.[5]

One must admire the tenacity of the opponents of this doctrine. They have failed in every attempt to have the Supreme Court reverse the doctrine. They have failed in every

5. It is worth noting that many of these "scholars" posited their views on the fact that some 80% of patents confer little or no economic value on the patentees. Those kinds of statements indicate a fundamental lack of understanding of the role of patents as they relate to the doctrine of patent tying. The some 80% of patents which provide no direct economic value, are patents which are not applied to products which are actually sold in the marketplace. Products which are not sold in the market place and which are not used in a tying arrangement, are not the subject matter of the patent tying doctrine. The patent tying doctrine applies only to patents on products which are actually sold in the market place and which patented products are tied to the sale of non-patented products. Tying constitutes an illegal extension of the patents monopoly in a situation where the patent owner utilizes the power of the patent on the manufactured tying product to exclude head to head competition against the tying product. In *Jefferson Parish*, the Court reiterated that the philosophical basis for the prohibition on patent tying was to prohibit the illegal extension of the patent monopoly from a patented product to a non-patented product. *That case was decided in 1984. If* Congress did not agree with the philosophical underpinnings of that doctrine, it has had multiple opportunities to change the doctrine and to revise Section 1 and it has consciously and consistently decided not to do so. No chorus of so called "scholars" should ever be used by this Court to overturn the clear will and intent of Congress.

attempt in the circuit courts of appeal (except for *A.I. Root Co. v. Computer Dynamics Inc.*, 806 F.2d 673 (6th Cir. 1986), wherein the Court expressly refused to follow an express holding of this Court and chose to follow the reasoning of a law review journal); they have failed in every attempt to convince Congress to eliminate this doctrine, and yet, once again, having failed in every other venue, they are returning once again to this Court for another bite of the apple. "Scholars" or no "scholars", this attempt should also be rejected. If these vociferous opponents of the doctrine have not been able to convince Congress, after all of these years, and all their efforts, they should just accept the existence of the doctrine, as has the rest of the Country, including the overwhelming majority of the business community.[6]

There are plenty of scholars on the other side of the Chicago School advocates. *See, e.g.*, Eleanor M. Fox

6. It is worth noting that none of the "scholars" represent any consumer advocates. The antitrust laws were created to benefit consumers. There has been an historical conflict in this country, which began when President Theodore Roosevelt started his trust busting crusades. That conflict is between big business on the one hand and consumers and small business on the other. The efforts by those seeking to eliminate the presumption are intended to further the power of big business at the expense of small businesses and consumers. This case is a classic example. Without the tying license, Plaintiff would have been able to sell its identical product at lower prices, which would have benefited not only consumers, but competition.

This case is bringing the usual suspects out of the woodwork. For example, the American Intellectual Property Law Association, which purports to speak for the patent bar (it doesn't) has been in the forefront of the unsuccessful effort to have Congress eliminate the presumption. It now wants to file an amicus brief in this case. The same is true of the American Bar Association, which for some reason, deems it appropriate to involve itself in these issues repeatedly, even though its efforts, to date, have been futile.

"The Modernization of Antitrust: A New Equilibrium", 66 Cornell Law Review 1140, 1146-55 (1981), Michael S. Jacobs, "An Essay on the Normative Foundations of Antitrust Economics" 74 NC L Review 219, 232-40 (1995).

IV. STATEMENTS BY MEMBERS OF THIS COURT, IN A CONCURRING OPINION AND IN A DISSENT TO A DENIAL OF A REQUEST FOR WRIT OF CERTIORARI ARE NOT A PROPER BASIS FOR THIS COURT TO UNDERTAKE A COMPLETE REVIEW OF A LONG ESTABLISHED SUPREME COURT DOCTRINE, WHICH HAS BEEN REPEATEDLY RATIFIED BY CONGRESS, THROUGH ITS REFUSAL TO CHANGE THE DOCTRINE.

The statement in *Jefferson Parish* in a concurring opinion, by a minority of the Court, was nothing more than a single phrase without any explanation or analysis and was not persuasive to the majority of the Court. As was discussed at some length above, this Court follows *stare decisis*, particularly in the area of statutory construction. Even if all of the members of the Court believed that the presumption should be eliminated because they disagreed with the philosophical underpinnings of the doctrine, regarding an illegal extension of the patent monopoly, this Court has an obligation to follow *stare decisis*. As indicated above, the *Digidyne* dissent related to software copyrights. Nowhere in that opinion did the justices indicate that they were interested in revisiting the doctrine as it applies to patents.

V. THERE IS NO DISARRAY WITHIN THE LOWER COURTS.

In the first place, the Supreme Court is under no obligation to accept a case in order to straighten out disagreements with district courts. When the Supreme Court resolves conflicts, they are conflicts between circuit courts, not district courts.

When this Court undertakes to resolve differences between circuit courts, it is in situations where the Supreme Court has not spoken and the circuit courts have caused confusion throughout the Country, because different circuits have created different, conflicting decisions. Sometimes in those situations, the Court will accept a case in order to eliminate the confusion. That, of course, is not always the case. Many times this Court has refused to grant certiorari, even when there are clear differences among the circuits. If this Court undertook to resolve every dispute between circuits, it would have little time for any other activities or any other types of cases.

In this case, we are not dealing with an area of the law to which the Supreme Court has not spoken. As acknowledged by Defendants, as of this time the Courts clear holdings, relating to the doctrine of patent and copyright tying, have been followed by the Ninth Circuit; the Eleventh Circuit, and now the Federal Circuit. None of those circuit courts have had any difficulty, whatsoever, understanding this Court's clearly enunciated doctrine as it relates to the presumption of market power in a patented or copyrighted product. None of those courts had any difficulty understanding the philosophical underpinnings of that doctrine which prohibits attempts to expand the patent

monopoly, to non-patented products. In spite of the numerous writings of so-called "scholars" that the doctrine has somehow ceased to exist, the doctrine is very much alive and has been recognized as very much alive by those three circuit courts. The only circuit which has not followed the Supreme Court decisions was a rogue panel of the Sixth Circuit in the case of *A.I. Root Co. v. Computer/Dynamics, Inc.*, *supra*. In that case, as was pointed out by the Federal Circuit panel in the case at bar, the Court expressly stated that it was going to follow the reasoning of a law review article instead of an express holding of the United States Supreme Court. That contemptuous attitude and blatant refusal to follow the express holding of this Court should not be held up as a conflict between the circuits.

It is respectfully suggested that it is adding insult to injury to ask this Court to consider that decision, which expressly stated that it was refusing to follow a holding of this Court, as a basis for this Court reconsidering its decisions in overturning precedent after precedent after precedent.

VI. PLAINTIFF AGREES THAT THE CONTINUING VITALITY OF THE MARKET POWER PRESUMPTION IS AN ISSUE OF SUBSTANTIAL PRACTICAL IMPORTANCE.

The irony of this portion of Defendants' brief is that they claim that the existence of this doctrine, which has been extant since 1946, must be eliminated in order to allow the creative abilities of American companies to express themselves by obtaining patents. In the same section, Defendants point out that in 2000, the patent office issued over 175,000 patents, compared to only about 66,000 twenty years ago. This is in the same brief where the Defendants

argue that patents have virtually no economic power. If patents have virtually no economic power, why are companies making these massive investments in obtaining patents.

What is often not understood by the "scholars" and pundits, who do not live in the real world of patents and the real world of businesses which have patent programs, is that the investment in patents is not limited to those specific patents which are effective in excluding competition. A company may invest hundreds of millions of dollars in research and development and produce thousands of patents, none of which produce any economic value. Out of those thousands of patents, however, one or two patents may emerge which provide an economic benefit. A patent, which provide the economic benefit of a monopoly on a product which is actually brought to market, is often the result of an entire program of research and development, with millions of dollars often spent in obtaining an entire patent portfolio. Companies are willing to make those extraordinary investments because of the return on those investments in obtaining one or two powerful patents, and they have done so throughout the some fifty eight years the doctrine has been in existence.

Defendants and the opponents of the patent tying doctrine, have never produced any studies to establish that **patented products used in tying arrangements** do not have market power. Because businesses are willing to invest millions of dollars in research, development, and patent programs, as well as disclosing their preferred embodiment, it is fair to presume that when they are successful in obtaining a patent, covering products which they are bringing to market, that the substantial economic investments have been

worthwhile. If the patented product has no economic value, over its competitors, in terms of its unique patented features, then those millions of dollars will have produced no financial or economic benefit. In other words, that decision would have been an irrational decision and it is fair to presume that companies do not make such irrational decisions as they relate to research, development, manufacturing and patents.

The practical reality is that this doctrine has been effect for decades. It is well known and it is well respected. Hardly any companies engage in illegal patent tying because all of them are aware of the fact that it is an illegal activity. The Defendant in this case is one of the rare exceptions of a company which was willing to run the risk in an illegal scheme because of its perceived economic benefits. Most legitimate businesses do not engage in patent tying. A perfect example is Hewlett Packard, which would frankly love to be able to prevent the refilling of its ink jet cartridges as a prerequisite to consumers purchasing its patented printers. Other examples include patented fax machines, the replaceable printing rollers of which are their main source of income. Many manufacturers of fax machines would love to be able to restrict the consumer to purchasing only replaceable printing rollers manufactured by them. The same is true of copy machines. There is a long list of examples of situations where the refill products constitute the main source of revenue and where the products, which use the refill products, are patented. Because of the existence of patents, those particular products are unique and anyone wishing to purchase those products would thereafter be expressly prohibited from using the products of others to replace the consumable items. More importantly, anyone attempting to provide refill products can be sued for interfering with a contract (as was threatened by Defendants in this case). It is

no secret that tens of millions of dollars of refill ink, for refilling Hewlett Packard cartridges, is sold every year by companies who are able to profit from refilling those cartridges. This is a considerable savings to the consumers, who do not have to buy new cartridges every time they run out of ink. Repealing the doctrine of patent tying could potentially open a Pandora's Box of problems in these areas. That is precisely why Congress has refused, time after time after time, to heed the squeals and cries of the "scholars" attempting to reverse this doctrine.

CONCLUSION

This Court should not usurp the province of Congress. It should refuse to accept this case.[7]

Respectfully submitted,

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7. Should the Court accept this case, Plaintiff believes that under *International Salt,* the presumption should not be rebuttable and Plaintiffs will ask this Court to decide that issue. Plaintiff also believes the Federal Circuit was wrong in affirming the portions of the District Courts' decision which it affirmed and in allowing the Defendants to introduce evidence of lack of market power when the uncontroverted facts in this case show that there were no substitutes for the patented printheads.

APPENDIX

APPENDIX — EXCERPTS OF HEARING BEFORE THE SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY OF THE COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES, ONE HUNDRED SEVENTH CONGRESS, FIRST SESSION DATED NOVEMBER 8, 2001

MARKET POWER AND INTELLECTUAL PROPERTY LITIGATION

HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

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ONE HUNDRED SEVENTH CONGRESS FIRST SESSION

NOVEMBER 8, 2001

Serial No. 42

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* * *

Mr. Boucher. Let me simply conclude my time here by saying something. I really don't perceive a need to adopt this legislation, and let me just put that belief on the record here. I am concerned that if we pass this in the absence of a clear need to do it, it is a change to the Nation's antitrust laws.

Appendix

We make those changes very sparingly and for good reason. Because, when we make a change, it is going to be interpreted by the courts to mean something. And if the Supreme Court, which already says there is no presumption in the absence of a showing of lack of substitutable product, sees that we have gone ahead and made this change anyway, I am concerned about how our action is going to be interpreted and whether, for example, it is going to make it more difficult to establish market power in appropriate cases where it really does exist; and that will now become a burden on the plaintiff in those instances.

I am concerned about what effect this change might have on collateral well-settled antitrust policies, such as, for example, the abuse of intellectual property concept; and I would just hesitate to see us act in the absence of a clear showing that it is necessary.

Thank you, Mr. Chairman.

* * *

- The basic problem stems from Supreme Court and lower Federal court decisions that construe patents and copyrights as automatically giving the intellectual property owner market power. *Jefferson Parish Hospital District No. 2 v. Hyde,* 466 U.S. 2, 16 (1984); *United States v. Loew's, Inc.,* 371 U.S. 38, 45 (1962); *Digidyne Corp. v. Data General Corp.,* 734 F.2d 1336, 1341-42 (9th Cir. 1984), *cert. denied,* 473 U.S. 908 (1984). To be sure, some courts have also refused to apply the presumption despite the Supreme Court's rulings. *Abbott*

Appendix

Laboratories v. Brennan, 952 F.2d 1346, 1354-55 (Fed. Cir. 1991), cert. denied, 505 U.S. 1205 (1992): *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986). As the guidelines note, the law is unclear on this issue. Antitrust Guidelines for the Licensing of Intellectual Property dated April 6, 1995 at 4 n. 10. This lack of clarity causes uncertainty about the law which, in turn stifles innovation and discourages the dissemination of technology.

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